

City of Boston Fiscal Context

FY10/FY11



Administration & Finance

February 26, 2010

Presentation Outline

- I. FY10 Budget Highlights
- II. Closing the FY10 Structural Deficit
- III. Federal Stimulus Overview
- IV. Staffing History
- V. FY11 Forecast
- VI. Understanding Reserves
- VII. Timeline
- VIII. Conclusion



I. FY10 Budget Highlights



City of Boston

FY10 Adopted Budget: \$2.39 Billion

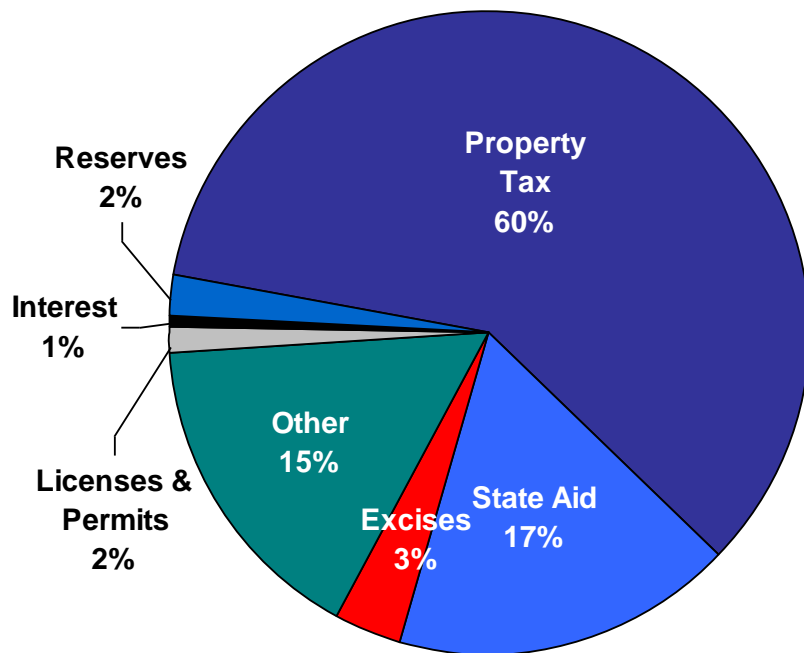
- \$26.3 million or 1.1% decrease from FY09 budget
 - Net state aid decreases sharply
 - Property tax revenue continues to grow
 - Other local revenue sources growth nearly all negative
- Fixed costs are increasing by \$34.2 million
- Total departmental appropriations are declining by \$55.5 million (3.4%)
- Budget uses \$45 million (over one-third) of reserves



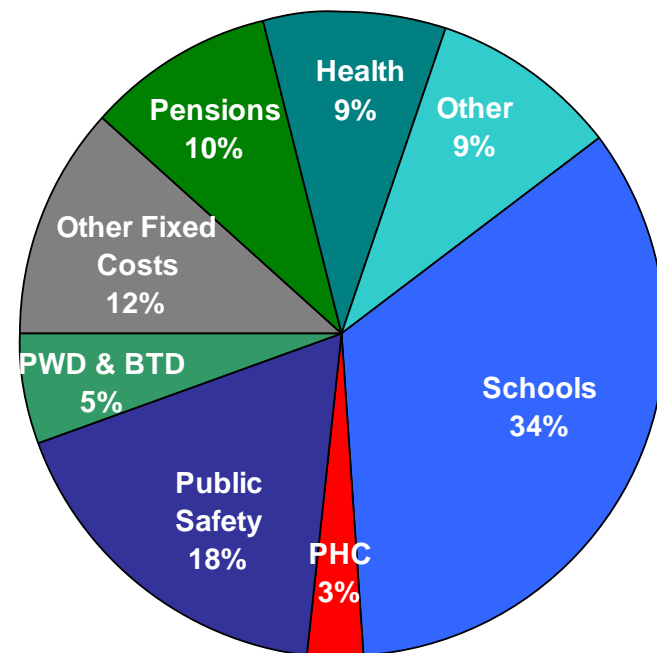
FY10 Adopted Budget: \$2.39 Billion

Revenues & Expenditures

Major Revenue Sources



Major Expenditure Areas

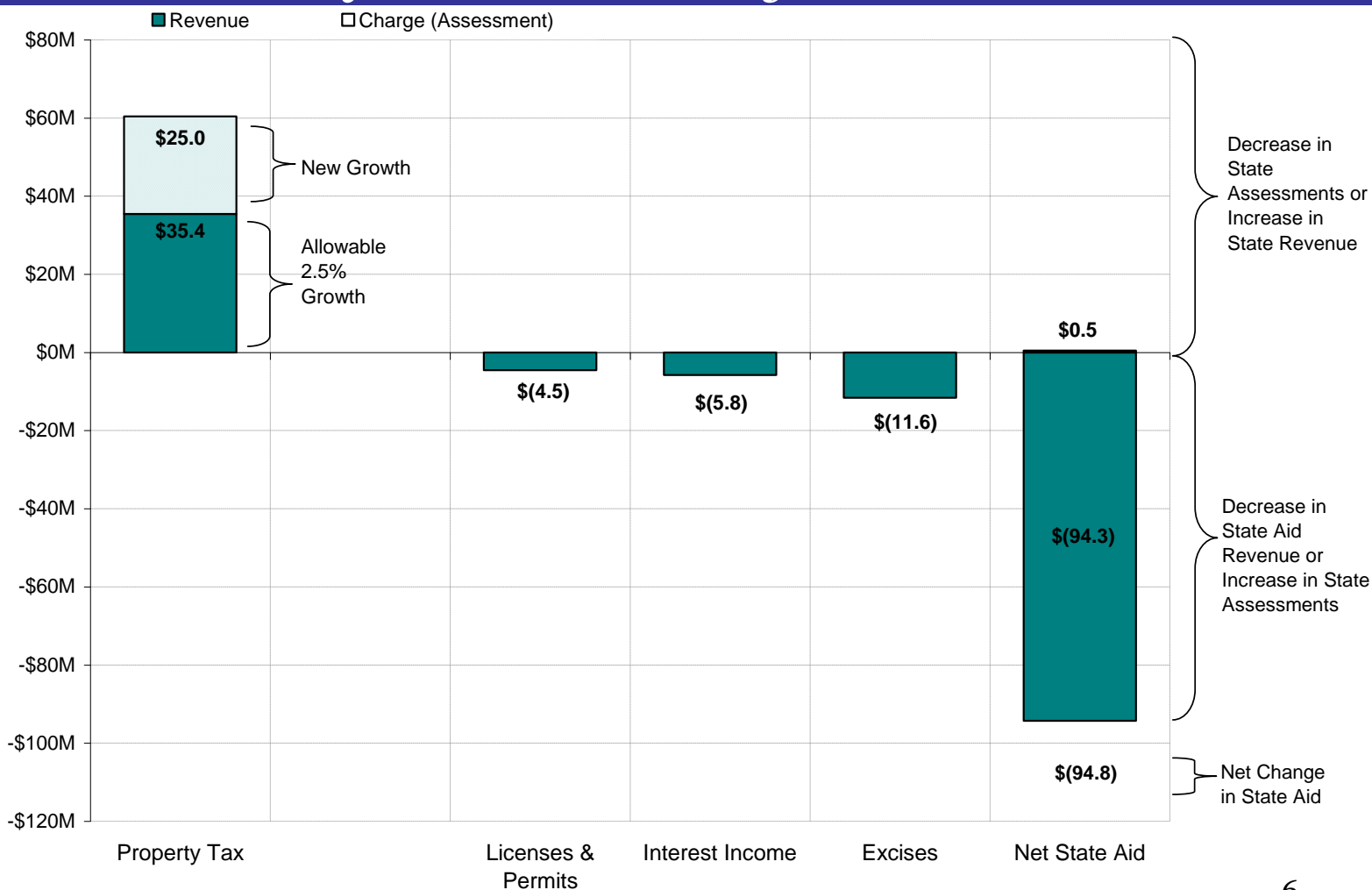


NOTE: Totals may not add due to rounding. Total health benefits costs, including those in Schools and PHC are 12.7% of total expenditures. Health expenditures include \$20 million to OPEB liability.



FY10 Projected Revenue

Revenue Growth by Selected Major Sources





FY10 Adopted Budget

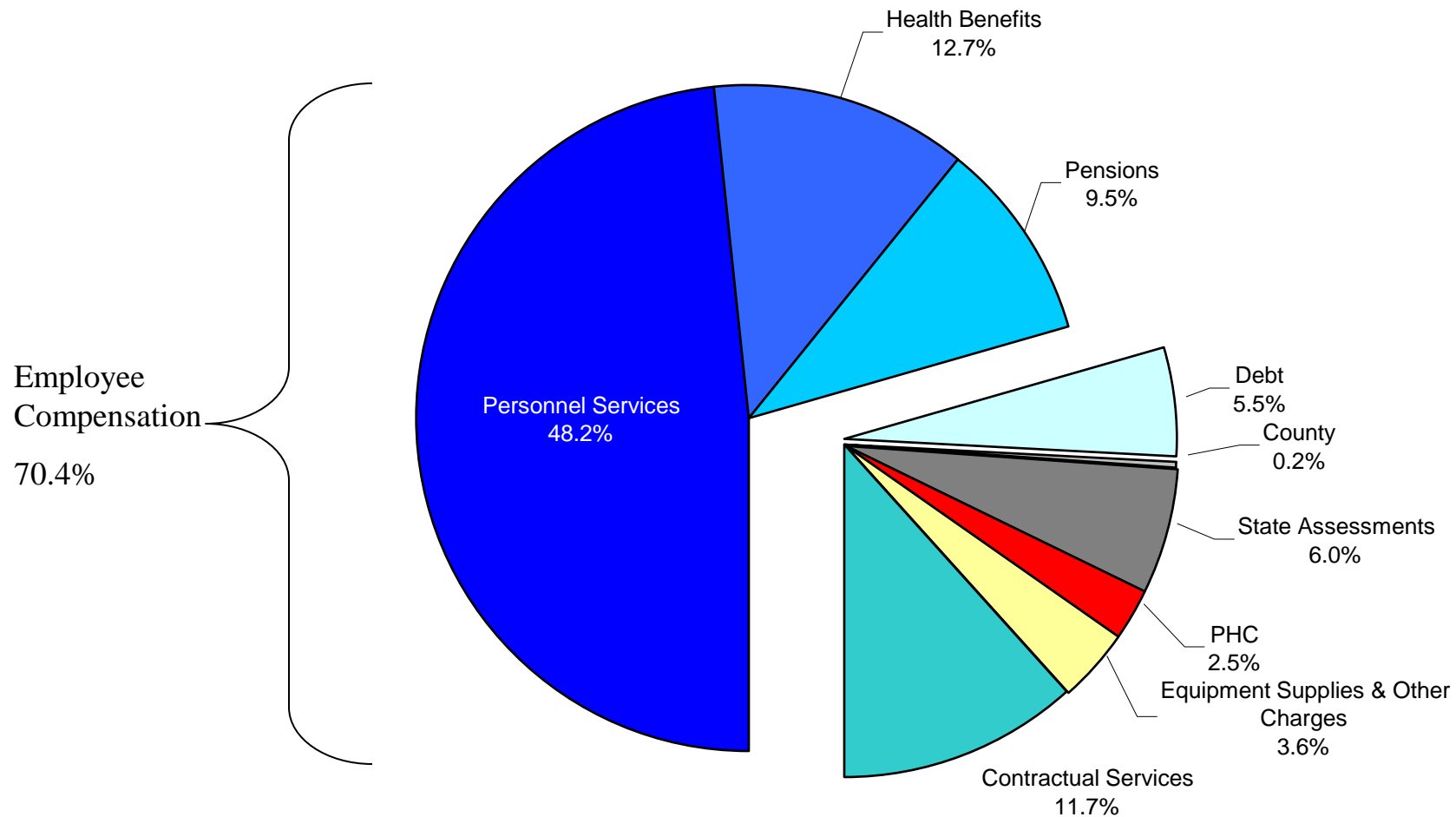
Major Expenditure Categories

	FY09 Budget	FY10 Projection	\$ Change	% Change
Health	\$265,863,139	\$279,148,661	\$13,285,522	5.0%
Pension	\$213,229,789	\$227,920,395	\$14,690,609	6.9%
Payment on Bonds	\$126,196,860	\$131,547,665	\$5,684,905	5.7%
State Assessments	\$143,115,798	\$143,628,098	\$512,300	0.4%
Schools*	\$755,452,142	\$737,284,030	(\$18,168,112)	-2.4%
Police	\$284,880,076	\$270,874,945	(\$14,005,131)	-4.9%
Fire	\$161,568,922	\$153,719,523	(\$7,849,399)	-4.9%
Other Departments	\$417,863,664	\$402,053,500	(\$15,810,164)	-3.8%
*Net of health insurance				



FY10 Budget: \$2.39 Billion

Expenditures by Category





II. Closing the FY10 Structural Deficit



Developing a Budget Forecast

Important Definitions

Maintenance Budget

The increased amount necessary to operate the City at the current year's service levels but at the next year's costs. The increased costs include previously negotiated rates set in collective bargaining and other service contracts and other fixed costs.

Structural deficit

The difference between on-going revenues and on-going expenditures projected for a fiscal year. If the on-going expenditures exceed on-going revenues, the City has a structural deficit.



Structural Deficit FY10

(\$millions)

Maintenance Budget FY10 (Feb 2009)	(\$151.1)
Forecasted Revenue Growth	<u>\$5.6</u>
	(\$145.5)
Additional State Aid Reduction from Forecast (June 2009)	<u>(\$32.5)</u>
	(\$178.0)
Reserves Used to Support FY09 Budget	(\$35.0)
Structural Deficit FY10	(\$213.0)



Structural Deficit FY10

Closing the Deficit - Personnel

(\$millions)

Structural Deficit FY10:	(\$213.0)
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Personnel Reductions:

Wage Deferral FY10	\$16.5
Layoffs	\$28.2
Positions Eliminated	\$12.4
Cancellation of FY09 Fire & Police Classes	\$5.4
Reduction of Quinn Bill Payment due to Decreased State Reimbursement	\$6.9
Other Personnel Reductions	\$1.2

Total Personnel Reduction:	\$70.6
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Structural Deficit FY10

Closing the Deficit

(\$millions)

Structural Deficit FY10:	(\$213.0)
One-time Revenues (Free Cash Reserves)	\$45.0
Federal Stimulus One-time Revenues	\$20.4
One-time Revenues (Parking Meter Fund) for Transportation Purposes	\$3.0
Total Personnel Reduction (see prior slide)	\$70.6
Other Departmental Reductions	\$43.8
Health Insurance Cost Management	\$9.4
OPEB Funding Deferral	\$15.0
Debt Service Reductions	\$5.8
Total Adjustments:	\$213.0



III. Federal Stimulus Overview



Federal Stimulus Impact on Boston

- The City of Boston and its agencies have aggressively pursued federal stimulus funds made available through the American Recovery & Reinvestment Act (ARRA).
- ARRA funds have been used to strengthen Boston's economy, improve housing and fight against homelessness, expand youth opportunities, and increase public safety and public health.
- The City and its agencies have been awarded ARRA funds totaling \$213.1 million in competitive or formula-driven grants (City \$134.4, BHA \$73.0, BRA \$5.1, PHC \$0.6), the majority of which support capital projects and time-limited initiatives.
- ARRA funds are short-term (1-3 years) and in some cases are temporarily sustaining existing spending. When these funds are exhausted, state and local operating budgets must again absorb these costs.
 - In FY10 the City used \$20.4 million in ARRA funds to support operating expenses in Schools and Police.

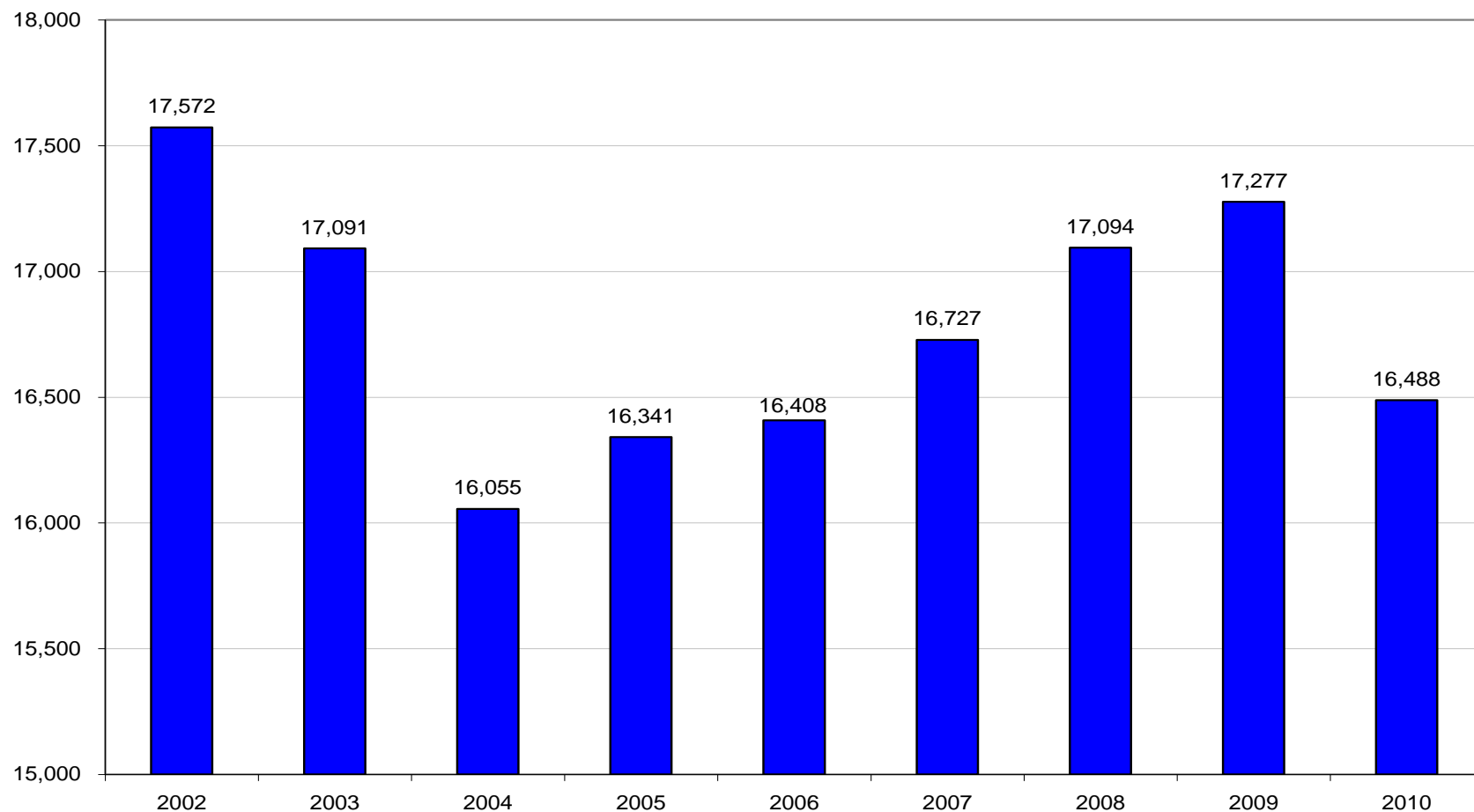


IV. Staffing History



Staffing History

Full-Time Equivalent Positions as of January 1





Staffing History

Full-Time Equivalent Positions as of January 1

	FY02 Actual	FY09 Actual	FY10 Actual	Change FY02 -10	Change FY09 -10
Police (uniform) *	2,161	2,239	2,124	(37)	(115)
Fire (uniform)	1,542	1,505	1,418	(124)	(87)
Schools	8,510	8,572	8,211	(299)	(361)
City Departments	5,359	4,961	4,735	(624)	(226)
Total	<u>17,572</u>	<u>17,277</u>	<u>16,488</u>	<u>(1,084)</u>	<u>(789)</u>

*An additional 50 officers are supported through one-time ARRA funding

- General Fund FTEs decline by 789 (4.6%) between FY09 and FY10
- FTEs down from January 2002 by 1,084 (6.2%)
- Total layoffs in FY10 = 280

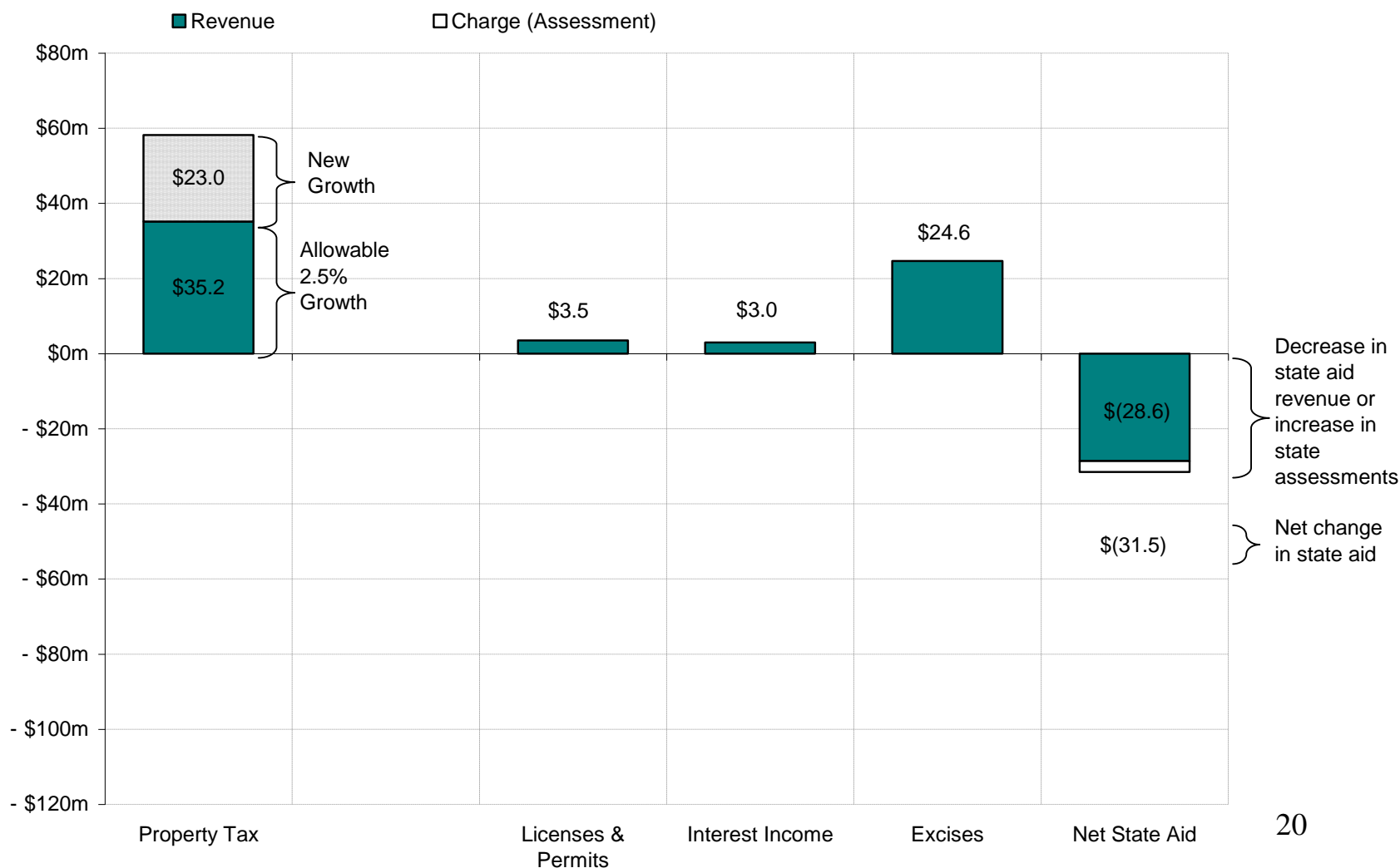


V. FY11 Forecast



FY11 Projected Revenue

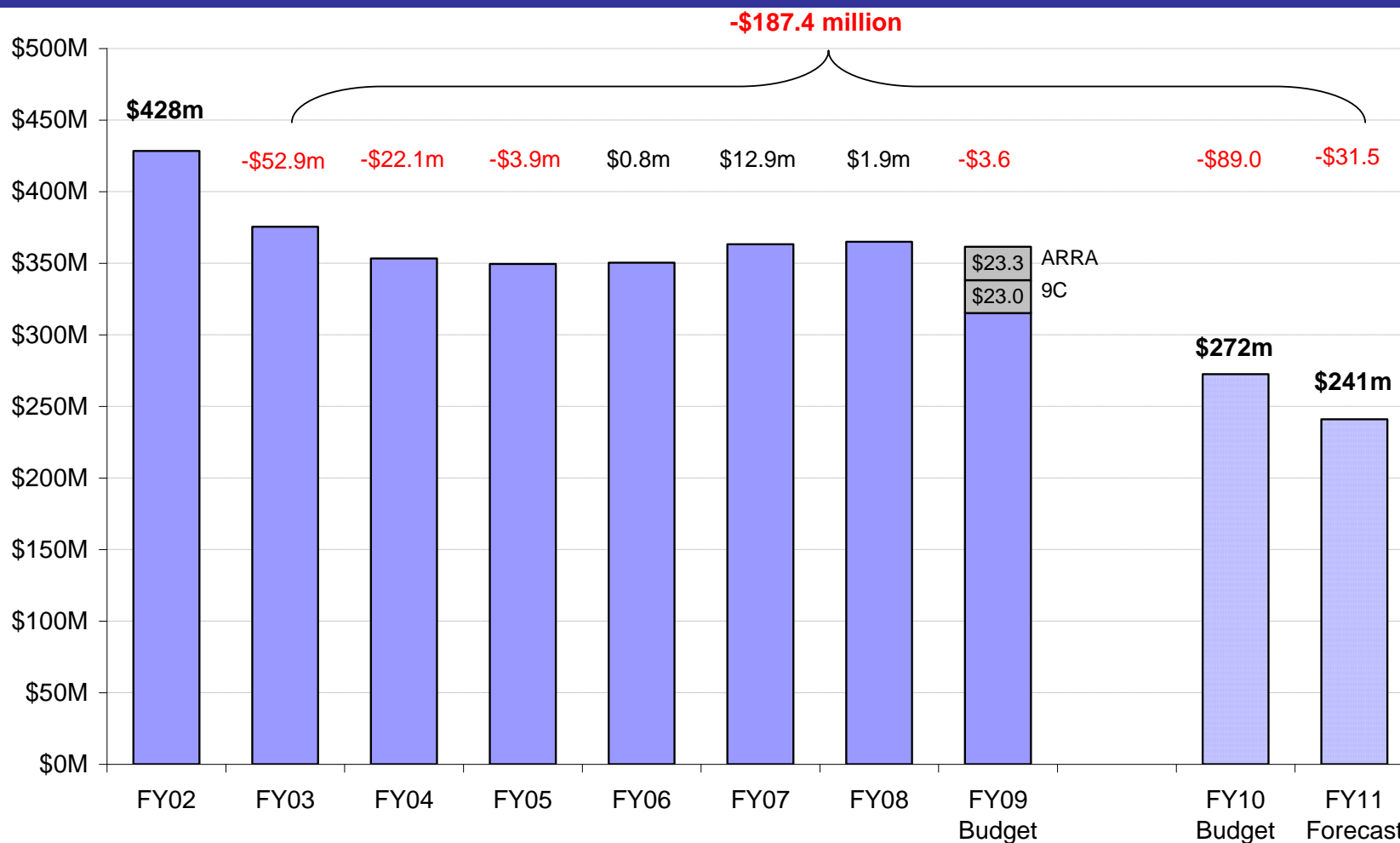
Revenue Growth by Selected Major Sources





City of Boston

FY11 Forecast: Net State Aid History (\$nominal)





FY11 Projected Revenue

Revenue Growth by Selected Major Sources

	FY10 Budget	FY11 Projection	\$ Change	% Change
Property Tax	\$1,429,324,788	\$1,487,496,931	\$58,172,143	4.1%
Net State Aid*	\$272,477,766	\$240,976,381	-\$31,501,385	-11.6%
Other Excises	\$81,275,000	\$76,545,000	-\$4,730,000	-5.8%
Meals (new tax)	\$0	\$16,875,000	\$16,875,000	100.0%
Hotel (tax increase)	\$23,000,000	\$35,500,000	\$12,500,000	54.4%
Licenses & Permits	\$31,260,000	\$34,780,000	\$3,520,000	11.3%
Interest Income	\$6,500,000	\$9,500,000	\$3,000,000	46.2%

*Net state aid reflects gross state aid net of municipal charges or "assessments"

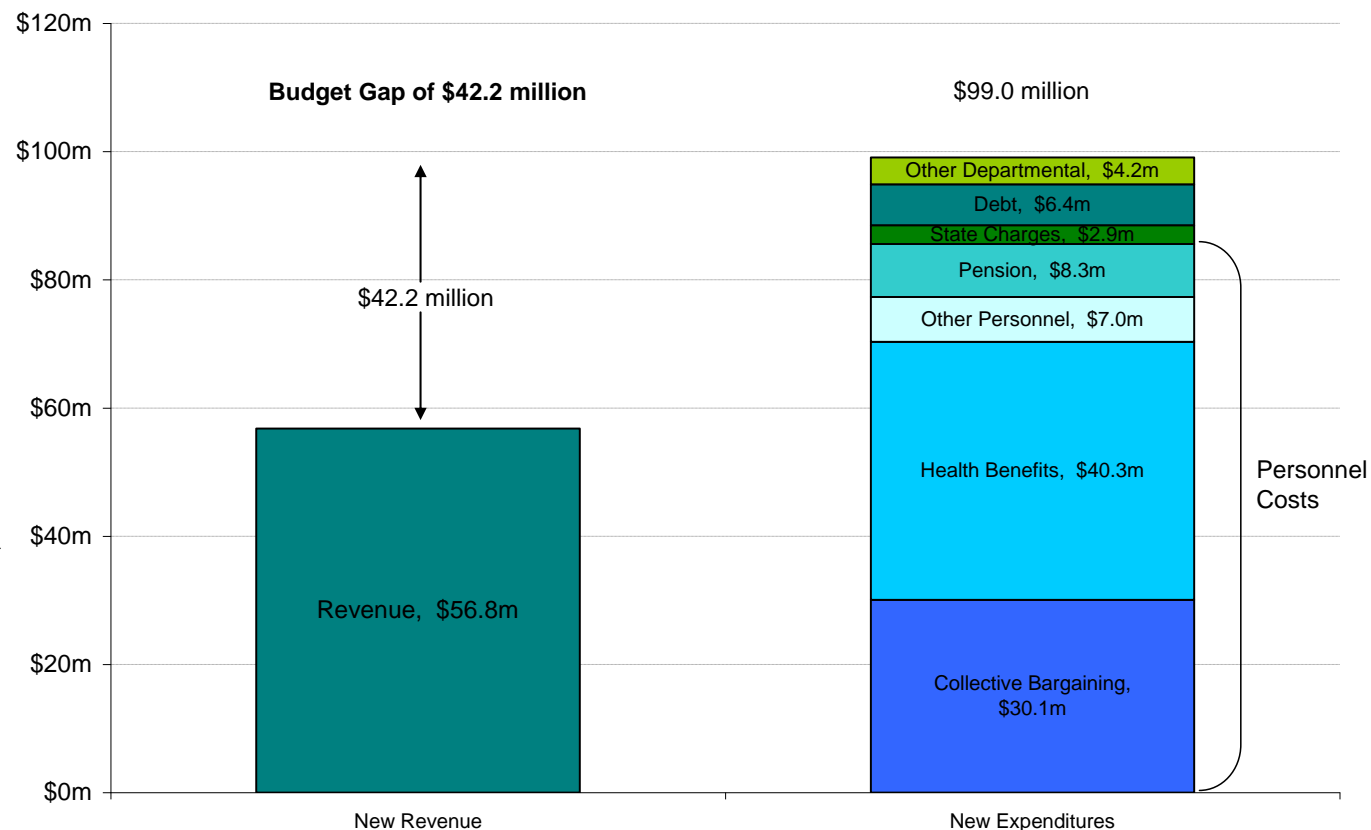


FY2011 Forecast (January 2010)

A Challenging Fiscal Environment

- Expenditures required to continue current service levels in FY2011 grow by 4.1% and easily exceed the projected rate of growth in revenues. This results in a projected budget gap of over \$42 million.

- FY2011 total revenues grow through new tax revenue and some recovery in local revenues, but are constrained by substantial reductions in state aid.





FY2011 Forecast (January 2010)

Grant Revenue Losses

Grant	FY10 Budget	FY11 Projected	FY11 Reduction
Library of Last Recourse (State)	2.56M	1.84M	(725K)
Boston Regional Library System (State)	901K	0	(901K)
ARRA – JAG -Police (Federal)	3.91M	0	(3.91M)
SPED Reimbursement -Circuit Breaker -BPS (State)	11.8M	4.9M	(6.9M)
Total	19.17M	6.74M	(12.43M)



VI. Understanding Reserves



Myth of the \$800M GAAP* Fund Balance

The \$800M Fund Balance cannot be appropriated for operations because:

- It includes reserves required by Massachusetts General Law for property tax abatements, goods & service commitments already made, and other legally required reserves (Tregor)
- It does not recognize reserves already appropriated by the Boston City Council, consistent with longstanding City policy for long-term liabilities (OPEB)
- It counts state reimbursements that won't be received until the following fiscal year (teacher pension costs and Quinn)

How does The Department of Revenue determine free cash?

- Adjusts Fund Balance for reserves and reimbursements described above
- Adjusts for City receivables to be collected

What can be appropriated?

- Amount certified by The Department of Revenue as free cash (after all the adjustments above)

* Generally Accepted Accounting Principles (GAAP)



Expendable Portion of the City's Reserve

Free Cash Certifications

- Free Cash must be certified by the Massachusetts Department of Revenue annually before it can be appropriated for use (MGL Chapter 59, section 23)
- FY10 Budget uses \$45 million (over one-third of certified amount)
- Filed for new free cash certification on February 19, 2010

(\$millions)

Date Certified	Annual Amount Certified	Amount Appropriated from Certification
1/12/2005	56.3	6.7
3/1/2006	54.4	7.5
1/22/2007	63.1	20.0
4/3/2008	110.2	35.0
3/20/2009	121.2	45.0



VII. Timeline



FY11 Timeline

Important Events

COB budget guidance to large departments	Dec.7th
Inaugural address - Mayor Menino	Jan. 4 th
State of the State address - Gov. Patrick	Jan. 21th
Governor's Budget released (House 2)	Jan. 27th
COB budget meetings with departments	Jan.-March
COB/Unions meeting	February
House Budget released	April
COB Budget Submitted to Council	April 14 th
Senate Budget released	May
State Budget finalized	July



Information Available Online

<http://www.cityofboston.gov/AdministrationFinance/>

Departmental Performance Management

Calendar Year Earnings Reports

Financial Reports

Presentations

Collective Bargaining Agreements

Letters to Unions



VIII. Conclusion



Conclusion

- FY11 poses significant challenges, following multiple years of severe financial constraint
- Strategies for FY11 must include:
 - Opportunities to retool the way we deliver services
 - Maximizing partnerships and external resource opportunities
 - Continued efforts to contain employee benefit costs
 - Establishing prudent approaches to address growing long-term retiree liabilities